

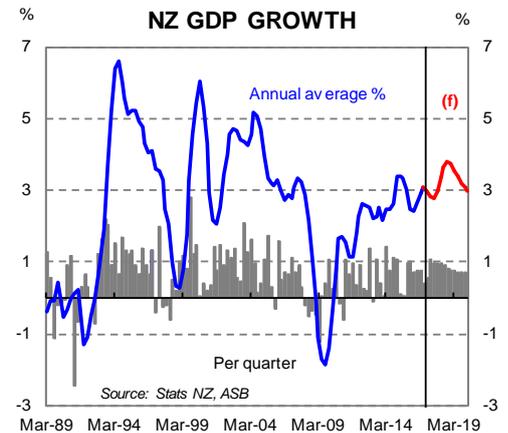
Economy stumbles in Q4, but should recover

- Q4 GDP softer than expected at 0.4%, Q3 also revised down.
- Weakness is in the more volatile components, underlying demand seems firm.
- GDP reinforces there is no hurry to lift the OCR: no hikes expected until late 2018.

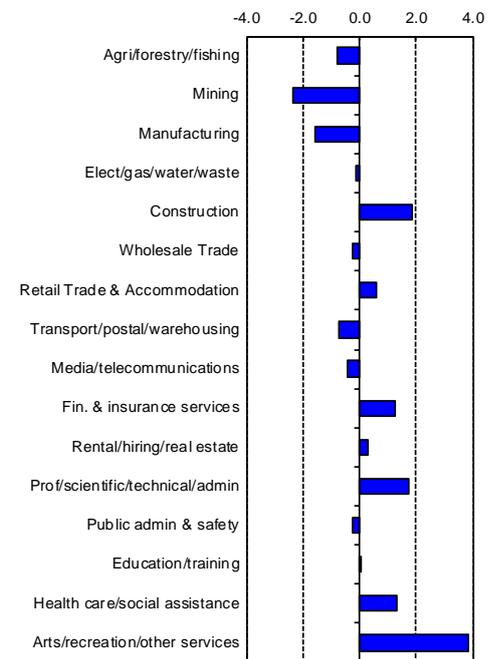
GDP growth was weaker than expected, rising just 0.4% in Q4 and well below our own and the RBNZ's expectations (0.9% and 1.0%, respectively). Furthermore, **Q3 growth was revised lower** by 0.3 percentage points, from 1.1% to 0.8%. The result is a **more moderate growth profile over the past year than previously believed**. The areas of weaker growth in Q4 are generally the more volatile components and we believe the underlying trend remains robust, albeit slightly softer than previously thought.

Given the recent lifts in inflation, the RBNZ may be less sensitive to the weaker outcome than otherwise would be the case. **The slightly weaker growth profile reinforces the fragile inflation outlook** and the need for ongoing monetary stimulus. **We continue to expect the RBNZ to leave the OCR on hold at 1.75% until late-2018**, with the major source of downside risk being uncertainty offshore.

GDP - December 2016	Previous	Actual	ASB	RBNZ	Market
quarterly % growth	0.8	0.4	0.9	1.0	0.7
annual % growth	3.3	2.7	3.3	3.5	3.2
annual average % growth	3.0	3.1	3.3		



Q4 2016 PRODUCTION GDP
(Quarterly % Change)



A **key source of weakness in Q4 was the transport industry** which was a major source of uncertainty for us ahead of the release. The small fall of 0.7% does follow the previous quarter's 3.7% increase, and some payback isn't unusual in NZ quarterly GDP figures. However, **factors which contribute to transport (anecdotes of strong postal demand and a lift in tourist movements) were generally positive** in Q4. The main complicating factor was that the **transport sector was significantly disrupted by the Kaikoura earthquake**, given the road, rail and port damage that occurred. **How this affected measurement of transport sector** is unclear, for example road miles likely lifted as trucks had to take a longer route through the top half of the South Island, but ferry sailings were outright cancelled. Overall, these figures **suggest the impact from the earthquake was negative**.

Manufacturing activity was also weaker than expected, due to widespread weakness throughout the food and beverage category. Other sectors of weakness included **mining and the information, media and telecommunications industry**.

Overall, the main areas of weakness in Q4 appear to be a **result of volatility and not reflective of any underlying weakening in trend growth**. The economy remains supported by strong tourism demand, construction activity, robust business confidence and healthy household demand.

The **services sectors were generally strong**, as expected. However, one exception was public administration and safety, which fell despite strong growth in hour's paid in this sector (and our assumption that the Kaikoura earthquake would boost activity as a result of the emergency response).

The main area of downward revision in Q3 appears to be in agriculture, with activity now falling 2.9% compared to flat as previously reported.

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